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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000357

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SUBJECT: BURMA: INCREASING MILITARY INVOLVEMENT IN TIMBER INDUSTRY

REF: A. 08 RANGOON 669

[1B.](#) 08 RANGOON 706

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4 (b and d).

Summary

[¶](#)1. (C) Although state-owned Myanmar Timber Enterprise (MTE), controlled by the Ministry of Forestry, is legally responsible for regulating Burma's timber trade, contacts confirm that MTE continues to lose ground to the military's Regional Commanders who control forest-rich areas. MTE remains the GOB's primary legal exporter of logs, sawed lumber, and finished products, earning more than USD 300 million in revenues annually. However, the regime has given select Regional Commanders authority to sell and export additional timber through unofficial border trade to China and India. Some private firms, including those owned by regime cronies, participate in timber trade with MTE's permission; but the GOB has limited their role in 2009 due to depressed world prices and declining demand. End Summary.

MTE's Role in the Timber Trade

[¶](#)2. (C) The Burmese Government uses two Ministry of Forestry institutions -- the Forestry Department and Myanmar Timber Enterprise (MTE) -- to regulate the timber industry. The

Forestry Department, which is responsible for forest conservation and management, sets each year the annual allowable cut (AAC) for the industry and physically marks the specific trees MTE can cut down. The Forestry Department also monitors the felling of trees and legally has the power to sanction any company (except MTE) that illegally cuts logs (although it often cannot exert this authority because senior leaders exempt certain companies from abiding by the law). State-owned MTE is responsible for the utilization and extraction of forests. Burmese law stipulates that only MTE can export cut logs, although MTE in recent years has allowed specific crony companies to cut and export timber (Ref A). Additionally, MTE sets the domestic price of teak and other hardwoods. According to official MTE documents, the price of timber varies between USD 488 and USD 2,226 per cubic meter, depending on the type and quality.

¶3. (C) Ref A details how MTE manipulates the timber industry to ensure more than USD 300 million in annual revenues for the regime. U Khin Zaw, former Deputy General Manager of MTE, explained that to maximize profits, MTE sells teak and other hardwood logs to private Burmese companies via monthly auctions. (Note: Burmese law prohibits foreign companies from working in the timber industry. End Note.) In 2007, MTE sold an average of 6,500 cubic meters of logs per month, yielding a gross income of USD 230 million (Refs A and B). In 2008, MTE's average sale dropped to 4,000 cubic meters a month; in 2009, sales have dropped to approximately 1,000 cubic meters a month, according to Captain Maung Aye, a retired timber exporter with continued strong ties to the industry (he is nicknamed the "King of Timber"). The drop in sales is due to both decreased demand worldwide and declining

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quality of Burmese timber (septel).

¶4. (C) According to U Win Aung of United International, one of Burma's larger private timber companies, MTE also earns hard currency by pre-selling logs (before they are cut) to select crony companies at below-market value; the companies eventually export the logs under MTE's name. Even though this process reduces slightly MTE's profits, in the past it has guaranteed that MTE reaches its revenue goal. However, Captain Maung Aye intimated that MTE has yet to pre-sell any logs in 2009, allegedly because Senior General Than Shwe told the Minister of Forestry to suspend this practice until further notice.

Regional Commanders Stepping In

¶5. (C) Captain Maung Aye confirmed rumors that the Northeast, Northwest, Northern, and Central Regional Commanders in the past year have become increasingly involved in the timber trade, exporting logs to India and China through illicit border trade. Indeed, during several trips to Mandalay, we have observed the Central Command's timber warehouse along the Irrawaddy River. We have also seen military trucks full of logs traveling from Sagaing Division to Mandalay, dropping off timber at the Central Command's warehouse. The Regional Commanders reportedly either use soldiers or hire local Burmese to fell trees.

¶6. (C) Captain Maung Aye noted that the Regional Commanders, with the permission of Secretary-1, also allow Chinese companies to enter Burma to cut and transport logs across the border, charging the PRC firms below-market value.

The military does not regulate the felling of trees, and companies often cut immature trees in order to maximize the number of logs for export, he explained. The Ministry of Forestry does not condone these activities, but the Minister does not have the authority to take on the more powerful Regional Commanders, Captain Maung Aye asserted. While reliable data on illicit timber trade is unavailable, Captain Maung Aye estimates that in 2008 China illegally imported more than USD 50 million in timber (septel). A portion of

this illicit trade is conducted by entities other than the military.

¶7. (C) Confiscated timber provides another income source for the armed forces. Ministry of Forestry contacts confirm that between April 2008 and February 2009, Regional Commanders and MTE seized more than 25,000 metric tons of timber and hardwood logs and 12,000 metric tons of sawn lumber that private Burmese companies or ethnic groups were trying to export illegally. Burmese law allows MTE to either auction the seized wood to Burmese companies for domestic use or export it for profit. However, under the authority of Secretary-1, Regional Commanders in 2009 have been able to export the timber seized by military units in their respective states or divisions, usurping MTE's role. In all cases, according to Win Aung, the Regional Commanders pocket the majority of the revenues from timber, although some money likely also funds military operations.

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